

Message Text

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ACTION ARA-20

INFO OCT-01 EUR-25 EA-11 ADP-00 AID-20 CIAE-00 COME-00

EB-11 FRB-02 INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07

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STR-08 CEA-02 L-03 RSR-01 /169 W

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R 271820Z JUL 73

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 8865

INFO AMEMBASSY PARIS

AMEMBASSY LONDON

AMEMBASSY TOKYO

AMECONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

AMCONSUL RECIFE

LIMITED OFFICIAL USE BRASILIA 4749

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJECT: LACK OF TAX TREATY WITH BRAZIL BECOMING INCREASING
HANDICAP TO AMERICAN BANKS IN COMPETING AGAINST FRENCH AND
JAPANESE BANKS FOR DESIRABLE LOAN BUSINESS IN BRAZZIL

1. IN THE PAST AMERICAN BANKERS HAVE MENTIONED FACT THAT
LOWER BRAZILIAN TAX RATES ON INTEREST TRANSFERS TO FRANCE
AND JAPAN HAVE HANDICAPPED THEM IN COMPETING FOR BUSINESS IN
BRAZIL. DURING RECENT VISIT OF FINATT TO RIO DE JANEIRO
REPRESENTATIVE OF LARGE AMERICAN BANK FURNISHED SPECIFIC
EXAMPLES OF COMPETING BIDS FOR PIECE OF BUSINESS WHICH HE
LOST. FRENCH BID WAS 2-1/2 PERCENT GROSS OVER LONDON INTER-
BANK AND JAPANESE BID 2 PERCENT GROSS OVER LONDON INTERBANK
FOR EIGHT YEAR MONEY. A GROSS BID MEANS THAT LENDER ASSUMES
RESPONSIBILITY FOR INCOME TAX LEVIED BY BRAZILIAN GOVERNMENT
ON TRANSFER OF INTEREST TO FOREIGN LENDER. THUS THE TOTAL
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COST BASIS OFFERED BRAZILIAN BORROWER WAS 12-1/2 PERCENT AND

12 PERCENT FOR FRENCH AND JAPANESE BIDS RESPECTIVELY.

2. BRAZILIAN TAX RATE ON TRANSFERS OF INTEREST TO FRANCE IS 15 PERCENT. FIFTEEN PERCENT OF 12-1/2 IS 1.875 PERCENT LEAVING A RETURN TO THE FRENCH BANK OF 10.625 PERCENT. IF LONDON INTERBANK RATE WERE 10 PERCENT, NET RETURN TO FRENCH LENDER WOULD BE .625 PERCENT.

3. BRAZILIAN TAX ON INTEREST TRANSFERRED TO JAPAN IS 10 PERCENT. THUS ON JAPANESE BID TAX WOULD BE 1.2 PERCENT LEAVING THE JAPANESE LENDER 10.8 PERCENT, OR 0.8 PERCENT ABOVE AN ASSUMED LONDON INTERBANK RATE OF 10 PERCENT.

4. IF AN AMERICAN BANK WERE TO BID 2-1/2 PERCENT GROSS OVER LONDON INTERBANK, ITS 12-1/2 PERCENT RETURN WOULD BE REDUCED BY 25 PERCENT, THAT IS 3.75 PERCENT, LEAVING YIELD OF 8.75 PERCENT. OBVIOUSLY THIS IS NOT FEASIBLE OPERATION IF COST OF MONEY IN LONDON IS 10 PERCENT. CONSIDERED IN ANOTHER WAY, AMERICAN BANK WOULD HAVE TO QUOTE GROSS 14.4 PERCENT TO BRAZILIAN CUSTOMER IN ORDER TO BE ABLE TO PAY 25 PERCENT TAX AND HAVE 10.8 PERCENT LEFT TO REMIT OUTSIDE BRAZIL.

5. SITUATION AFFECTED SOMEWHAT BY TAX CREDIT SITUATION WHICH VARIES AMONG AMERICAN BANKS. SOME STATE THEY HAVE NO AVAILABILITY LEFT TO TAKE ADVANTAGE OF TAX CREDIT. OTHERS APPARENTLY STILL HAVE. TAX CREDITS IN THEIR HOME COUNTRIES COULD ALSO AFFECT POSITIN OF FRENCH AND JAPANESE BANKS, BUT EMBASSY UNABLE TO EVALUATE THIS FACTOR. IN ANY CASE, ABOVE FIGURES ILLUSTRATE HANDICAP UNDER WHICH AMERICAN BANKS ARE OPERATING IN COMPETING FOR BUSINESS.

6. AMERICAN BANKER WHO GAVE FOREGOING SPECIFICS RE FRENCH AND JAPANESE COMPETITION STATED HIS INSTITUTION HAS BEEN MORE OR LESS EFFECTIVELY PRECLUDED FROM BIDDING ON LARGER BLOCKS OF BUSINESS FOR PUBLIC ENTITIES WITH BEST CREDIT. HE IS BEING FORCED TO LOOK FOR CUSTOMERS WITH LESS STRONG CREDIT RATINGS WHO ARE WILLING TO PAY RATES HIGH ENOUGH TO MAKE BUSINESS PROFITABLE TO AMERICAN LENDING BANK.

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7. THIS BANKER ALSO STATED HE KNEW OF AT LEAST ONE JAPANESE BID (WHETHER FOR THIS PARTICULAR BUSINESS WHICH HE LOST, OR ANOTHER TRANSACTION, WAS NOT CLEAR) IN WHICH JAPANESE BID WAS NOT ONLY VERY LOW, BUT ONE OF STIPULATIONS LAID DOWN BY THE JAPANESE LENDER WAS THAT BORROWER WOULD NOT, REPEAT NOT, USE PROCEEDS OF CREDIT TO PURCHASE JAPANESE GOODS.

8. COMMENT: THIS TELEGRAM SHOULD NOT BE INTREPRETED AS SUGGESTING THAT AMERICAN INSTITUTIONS ARE BEING COMPLETELY FROZEN OUT OF BRAZILIAN MARKET.FOR EXAMPLE, REPRESENTATIVE OF ANOTHER LARGE AMERICAN BANK INFORMED EMBASSY THAT HIS BANK HAD INCREASED ITS COMMITMENTS IN BRAZIL BY \$40 MILLION OVER PAST YEAR. ON OTHER HAND, EVIDENCE IS INCREAS-
ING THAT FRENCH AND JAPANESE BANKS ARE BECOMING VERY ACTIVE IN BRAZILIAN MARKET SO THAT, GIVEN THEIR MORE FAVORABLE TAX SITUATIONS, THEIR COMPETITION MAY BEGIN REALLY TO HURT.
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